



SEPTEMBER 2026 CLIENT QUESTION OF THE MONTH

THE FED

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Overview

The Federal Reserve, or simply the Fed, is the central bank of the United States. Following the Panic of 1907 and a series of bank failures, Congress concluded that the country needed a central bank to help provide stability to the financial system and serve as a lender of last resort. The Federal Reserve Act was passed in 1913 and signed into law by President Woodrow Wilson, creating the Federal Reserve System. The goal was to provide the nation with a safe, flexible, and stable monetary and financial system.

The Fed operates independently within the federal government but is ultimately accountable to the public and to Congress. While the President and members of Congress are sometimes openly critical of Fed policy, monetary policy decisions are intended to be insulated from political influence.

The Fed performs five key functions to promote the effective operation of the US economy:

Conduct monetary policy for the United States	Help maintain the stability of the financial system	Supervise and regulate financial institutions	Foster payment and settlement system safety and efficiency	Promote consumer protection and community development
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Key Entities

The three key entities of the Federal Reserve are the Board of Governors, the Federal Reserve Banks, and the Federal Open Market Committee (FOMC).

Federal Reserve Board of Governors

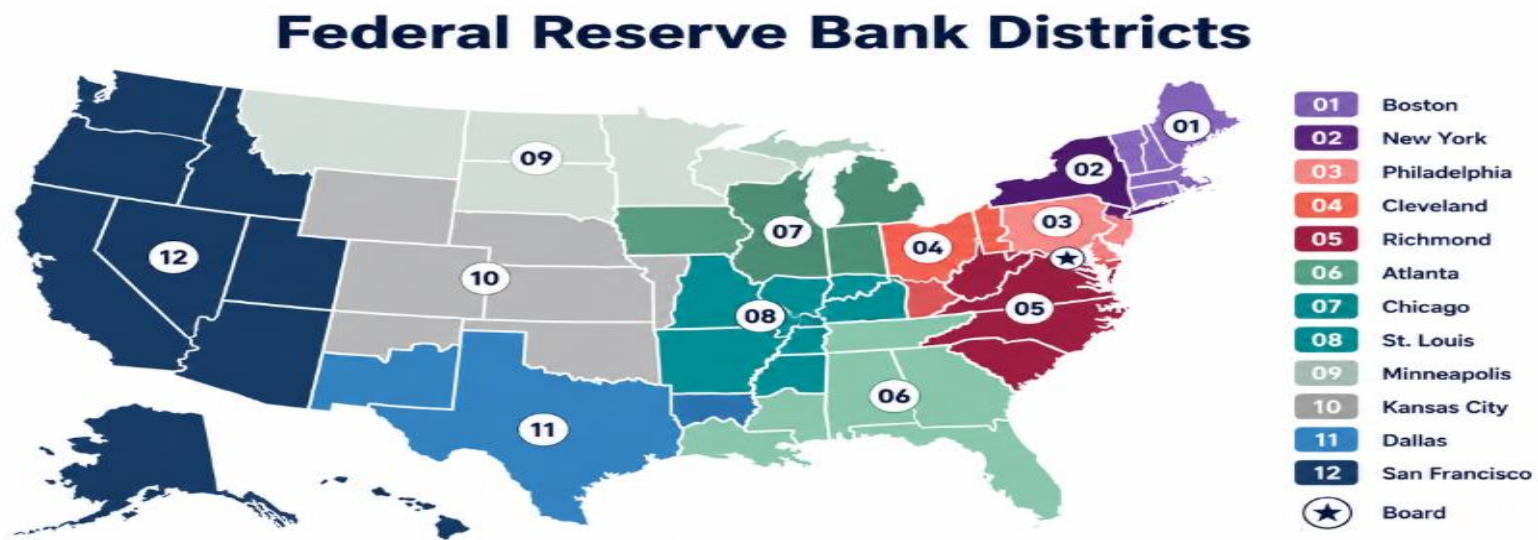
The Board of Governors serves as the governing body for the Federal Reserve System. The Board is composed of seven members, each nominated by the President and confirmed by the Senate. Members are appointed to staggered 14-year terms, with one term expiring on January 31st of every even-numbered year. A member who serves a full 14-year term cannot be reappointed.

The Fed Chair, Vice Chair, and Vice Chair for Supervision are nominated by the President from among the members of the Board and confirmed by the Senate. All three serve 4-year terms and may be reappointed.

Fed Chair: Kevin Warsh | **Fed Vice Chair:** Philip Jefferson | **Vice Chair for Supervision:** Michelle Bowman

Federal Reserve Banks

The twelve Federal Reserve Banks serve as the operating arms of the Federal Reserve System. Each Reserve Bank works within a specific geographic region, or district. Core functions include supervising and examining financial institutions, lending to depository institutions, and providing payment and settlement services. The Reserve Banks also collect data and insights from their local communities and share this information with the FOMC as input for monetary policy decisions. Each Reserve Bank effectively serves as a “bank for banks” in their district.



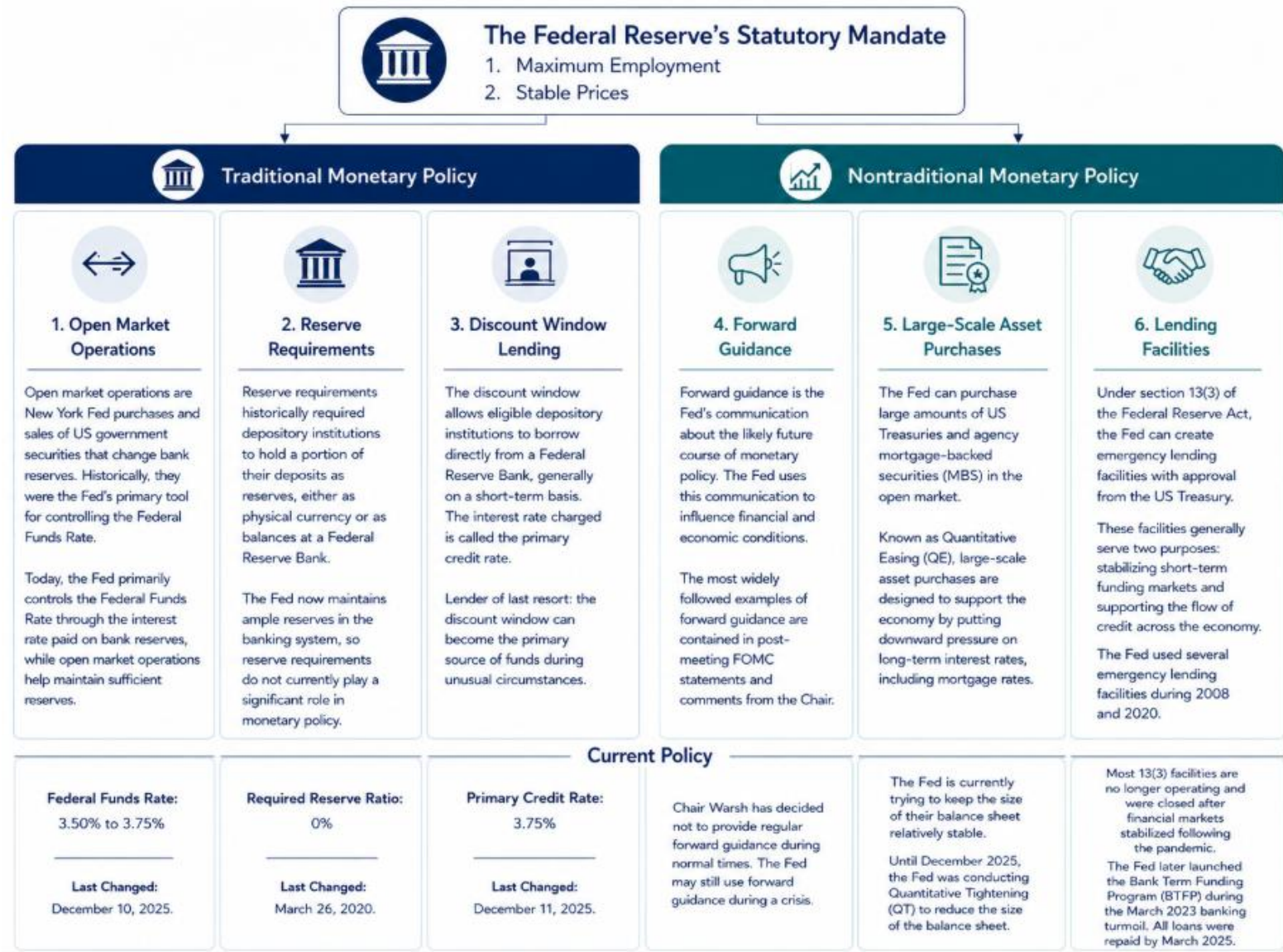
Source: Federal Reserve

Federal Open Market Committee (FOMC)

The FOMC sets national monetary policy on behalf of the Federal Reserve System. Monetary policy refers to the actions the FOMC undertakes to promote maximum employment and price stability. When fully staffed, the FOMC is composed of twelve voting members: the seven members of the Board of Governors, the President of the Federal Reserve Bank of New York, and four of the remaining eleven Reserve Bank presidents, who vote on a rotating basis. All twelve Reserve Bank presidents attend and participate in FOMC meetings, but only voting members cast votes on monetary policy decisions.

The committee holds eight regularly scheduled meetings per year to review economic and financial conditions, assess risks to the economic outlook, and determine the appropriate stance of monetary policy.

The FOMC uses a combination of traditional and nontraditional monetary policy tools to achieve the goals established by Congress.



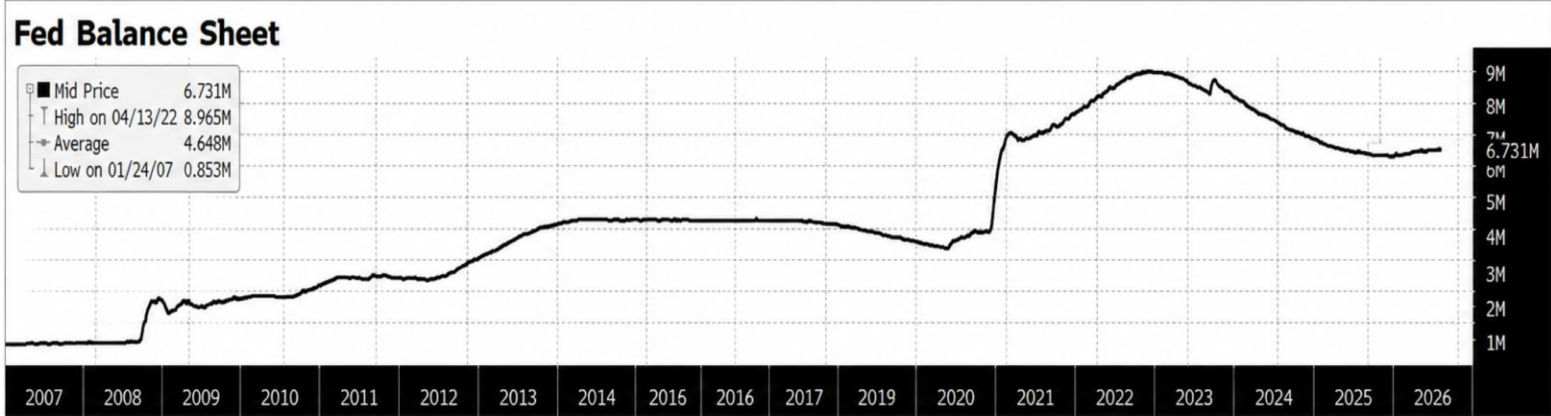
The Fed’s Balance Sheet

The Federal Reserve’s balance sheet is the consolidated statement of assets and liabilities for all twelve Federal Reserve Banks. Assets include holdings of US Treasuries and agency mortgage-backed securities (MBS), loans to financial institutions, and amounts lent through the Fed’s emergency lending facilities. Liabilities include currency in circulation and bank reserves, which are the funds banks hold at the Fed. The Fed can use the size of their balance sheet as a monetary policy tool. Accommodative policy generally results in a larger balance sheet through asset purchases or lending programs, while restrictive policy can result in a smaller balance sheet through Quantitative Tightening (QT).

Before the 2008 Financial Crisis, the Fed’s balance sheet drew little attention from investors. That changed when the Fed launched large-scale asset purchase programs, known as Quantitative Easing (QE), to support the economic recovery. The Fed’s QE programs also helped monetize a significant amount of the debt issued by the Treasury to fund fiscal stimulus programs (please see our Client Question on the [Federal Debt](#)).

Here is a brief history of the Fed’s recent Quantitative Easing and Tightening programs:

Quantitative Easing / Tightening	
Time Period	Fed Actions
2008 - 2015	Three separate Quantitative Easing (QE) programs expanded the balance sheet from about \$900 billion to over \$4.5 trillion.
2015 - 2019	Quantitative Tightening (QT) reduced the balance sheet to under \$4 trillion.
2020 - 2022	In response to COVID-19, the Fed launched an open-ended QE program and several lending facilities, growing the balance sheet to nearly \$9 trillion.
2022 - 2025	The Fed began Quantitative Tightening (QT) to reduce the size of the balance sheet. In March 2025, the monthly runoff cap was lowered to \$40 billion.
December 2025 - Present	Quantitative Tightening ended in December 2025. The Fed is now trying to keep the size of their balance sheet relatively stable.



Source: Federal Reserve, Bloomberg, Winthrop Wealth.

Controlling the Monetary Base – Printing Money

The Fed has direct control over the monetary base, which consists of currency in circulation plus bank reserves. When the Fed wants to inject liquidity into the financial system, they can create new bank reserves electronically, often described as “printing money.” For example, when the Fed purchases a Treasury security, they pay by creating new reserves in the banking system. The transaction replaces a longer-term security held by a bank or investor with a more liquid asset. This can encourage additional lending or investment, while the Fed’s purchases can also help lower interest rates and ease financial conditions.

Bank reserves are funds banks hold in accounts at the Federal Reserve. Banks use reserves to settle payments and maintain liquidity. The Fed has paid interest on reserve balances since 2008. The interest rate on reserve balances (IORB rate) is currently 3.65% and has become an important tool for controlling short-term interest rates.

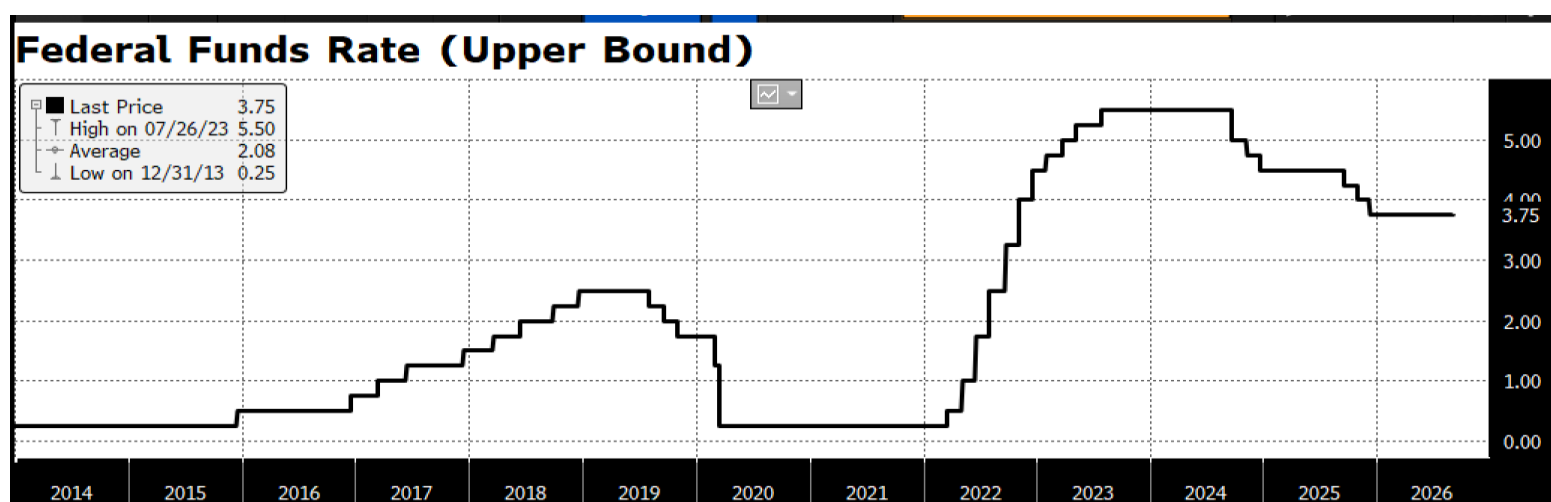
How Monetary Policy Impacts the Economy, Interest Rates, and Stock Prices

"My job continues to be to predict the financial markets, particularly the major stock, bond, commodity, and foreign exchange markets around the world. To do this job well, I've learned that nothing is more important than to anticipate the actions of the Federal Reserve System's Federal Open Market Committee (FOMC), which sets the course of monetary policy in the United States."

- Ed Yardeni, Market Strategist

The FOMC sets monetary policy to establish the financial conditions believed to best achieve the mandated goals of maximum employment and stable prices. As economic conditions change, the FOMC adjusts policy accordingly. The Fed's most common monetary policy tool is setting the target range for the Federal Funds Rate, with the top end currently at 3.75%. Policy is considered accommodative when the FOMC is trying to boost the economy, and restrictive when they are trying to slow the economy, typically because inflation is running higher than preferred.

According to the Fed, monetary policy directly affects interest rates and indirectly affects stock prices, wealth, and currency exchange rates. Through these channels, monetary policy influences spending, investment, production, employment, and inflation in the United States. Effective monetary policy complements fiscal policy to support economic growth.



Source: Bloomberg.

Economy

The Fed states that monetary policy affects the US economy primarily through its influence on the availability and cost of money and credit. The Fed's decisions impact a wide range of spending by individuals and corporations. When the Fed shifts to accommodative monetary policy and lowers the Federal Funds Rate, lower interest rates reduce borrowing costs and can stimulate spending on homes, automobiles, business investment, and other goods and services. Since consumer spending accounts for about 70% of GDP, increased spending can provide a meaningful boost to economic growth.

The Fed also notes that higher stock prices can lead to increased spending through the wealth effect. When stock prices rise, shareholders' overall wealth increases. US household net worth reached a record of approximately \$183 trillion in the first quarter of 2026, supported by rising real estate and other asset values. Intuitively, when individuals feel wealthier, they tend to spend more.

Interest Rates

Short-Term

The Federal Reserve influences short-term interest rates by setting the Federal Funds Rate. As the Federal Funds Rate increases or decreases, US Treasury bills, commercial paper, and other short-term bonds typically move in the same direction.

Long-Term

The market determines long-term yields based on supply dynamics, including elevated federal debt issuance, and investor demand, which vary with expectations for future inflation and economic growth. The Fed can also influence long-term yields more directly through Quantitative Easing or Tightening.

Stock Prices

"The most direct and immediate effects of monetary policy actions, such as changes in the Federal Funds Rate, are on the financial markets."

- Ben Bernanke, Former Fed Chair (2006 – 2014)

Monetary policy has a significant impact on interest rates and, in turn, equity prices. Accommodative monetary policy generally leads to lower interest rates and higher stock prices, while restrictive policy generally has the opposite effect.

When you buy a share of stock, you are purchasing an ownership stake in the underlying company. Your ownership stake represents a claim on the firm’s cash flows, earnings (profits), and dividends.

Stock prices reflect the present value of a company’s expected future earnings. Interest rates can affect stock prices by changing the discount rate applied to those earnings, the relative attractiveness of stocks compared with other asset classes, and the cost at which companies can borrow or refinance. These factors occur simultaneously, though their impact varies based on company-specific circumstances.

Interest rates impact stock prices by changing:

- 1. The discount rate used to calculate the present value of future cash flows.
- 2. The relative value tradeoff between stocks and other asset classes (i.e. bonds or cash).
- 3. The amount at which corporations can borrow or refinance.

Interest Rates ↓		Interest Rates ↑	
Discount Rate Decreases	Present value of future cash flows increases	Discount Rate Increases	Present value of future cash flows decreases
Relative Value of Stocks Increases	Lower expected future returns on fixed income make equities more attractive; investors shift toward riskier assets	Relative Value of Stocks Decreases	Higher expected future returns on fixed income make equities less attractive; investors shift toward safer assets
Corporate Cash Flows Increase	Cheaper borrowing lowers debt costs and supports stronger household and business spending	Corporate Cash Flows Decrease	More expensive borrowing raises debt costs and slows household and business spending
Stock Prices ↑		Stock Prices ↓	

Source: Winthrop Wealth.

Chair Warsh’s Review of the Federal Reserve

Kevin Warsh became Fed Chair in May 2026 and quickly began a broad review of how the Federal Reserve conducts monetary policy. Warsh has been critical of several Fed policies and practices in the past and has argued that the central bank should reconsider whether its existing frameworks, analytical tools, and communication methods are still appropriate for the current economy.

As part of that review, Warsh announced five task forces focused on areas central to monetary policy: communications, balance sheet policy, data, productivity and jobs, and inflation frameworks. The task forces include experts from inside and outside the Federal Reserve and are expected to provide recommendations to policymakers by the end of 2026.

The recommendations could ultimately influence how the Fed communicates with markets, manages the size and composition of its balance sheet, evaluates inflation and employment, and incorporates changes in technology and productivity into monetary policy decisions. Warsh has emphasized that the review is separate from current policy decisions, which will continue to depend on economic conditions and incoming data.

Monetary Policy: Recap and Road Ahead

"Don't fight the Fed."

- Martin Zweig, Market Strategist

The Fed and their monetary policy decisions have a significant impact on the economy and financial markets. Since the Financial Crisis, the Fed has grown even more impactful as they have become more willing to use nontraditional monetary policy tools to support the economy.

During the pandemic, the Fed launched the most accommodative monetary policy environment in United States history by lowering the Federal Funds Rate to zero, starting an open-ended Quantitative Easing program, and launching several lending facilities designed to increase the flow of credit across the economy. Massive fiscal and monetary stimulus contributed to a surge in inflation that the Fed initially deemed "transitory," but by 2022 they pivoted sharply, hiking rates by more than 500 basis points through mid-2023.

Inflation moderated but stayed above target, prompting the Fed to keep rates steady through most of 2024. In the fall of 2024, the FOMC began cutting rates, lowering the top end of the Federal Funds Rate by 100 basis points to 4.50% by year-end. The Fed held rates unchanged through August 2025 before cutting by 25 basis points at each of their September, October, and December meetings. Those cuts lowered the top end of the Federal Funds Rate to 3.75%, where it has stayed throughout 2026.

Since becoming Fed Chair in May, Kevin Warsh has provided a more cautious assessment of the need for additional monetary policy support. At the July FOMC meeting, three members voted to raise interest rates by 25 basis points, while the majority voted to keep rates unchanged. Warsh provided his clearest assessment of current conditions at the Jackson Hole Economic Policy Symposium in August. He described economic growth as strong, the labor market as consistent with full employment, and financial conditions as not restrictive. Inflation is still well above the Fed's 2% target, leading Warsh to state that "the Fed's predominant focus right now should be on prices."

Chair Warsh has continued to refrain from providing forward guidance or an explicit reaction function for future rate decisions. Despite the lack of an explicit signal, the market interpretation following Jackson Hole was that the Fed is more likely to raise interest rates at their September 16th meeting. According to Bloomberg, the implied probability of a September hike increased from about 30% to 60% after the speech.

Several important labor market and inflation reports will be released before the September meeting. In our view, the incoming data and the path of oil prices will determine whether the Fed raises rates. Current market pricing implies only about two total hikes through the end of 2027, suggesting that investors do not expect an extended tightening cycle. However, the expected path of interest rates could change quickly in response to new economic data or geopolitical developments.

At Winthrop Wealth, monetary policy is a vital component to our market outlook and portfolio positioning. We continue to believe that analyzing the impact of current Fed policy and anticipating the potential implications of future policy are critical to successful portfolio management.

At Winthrop Wealth, we follow a [Total Net Worth Approach](#) to wealth management that combines both comprehensive financial planning and investment management. The financial plan helps define cash flow needs, seeks to optimize account structures, considers tax mitigation strategies, and determines the appropriate asset allocation based on the client's willingness and ability to take risk. Based on the output of the financial plan, our investment management process designs a well-diversified portfolio constructed with a long-term methodology based on prudent risk management, asset allocation, and security selection. *For clients who receive both financial planning and investment advisory services under agreement. No strategy assures success or protects against loss. Investing involves risk, including loss of principal.*

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Index and Market Reference Glossary

Federal Funds Rate: The interest rate at which depository institutions lend reserve balances to other depository institutions overnight. The Federal Open Market Committee sets a target range for the Federal Funds Rate as its primary monetary policy tool.

Effective Federal Funds Rate: The volume-weighted median rate of overnight federal funds transactions. This rate may differ from the Federal Funds Rate target range and is commonly used in calculating market-implied expectations from Federal Funds futures.

30-Day Federal Funds Futures: Futures contracts that reflect market expectations for the average Effective Federal Funds Rate during a given calendar month. Market participants and data providers may use these contracts to estimate implied probabilities of Federal Reserve rate changes.

Quantitative Easing: A monetary policy tool through which the Federal Reserve purchases Treasury securities, agency mortgage-backed securities, or other eligible assets to increase liquidity, support market functioning, and ease financial conditions.

Quantitative Tightening: A monetary policy tool through which the Federal Reserve reduces the size of its balance sheet, generally by allowing securities to mature without full reinvestment and, in some circumstances, through asset sales.

U.S. Treasury Securities: Debt obligations issued by the U.S. Department of the Treasury, including Treasury bills, notes, and bonds. Treasury yields are commonly used as reference points for short-term and long-term interest rates.

Basis Point: A unit of measure used to describe changes in interest rates. One basis point equals 0.01%, and 100 basis points equal 1.00%.

Interest on Reserve Balances: The rate of interest paid by the Federal Reserve on balances maintained by depository institutions at Federal Reserve Banks. The IORB rate is used to help implement monetary policy and control short-term interest rates.

Market-Implied Probability: An estimate derived from market pricing that reflects investors' expectations for a future event, such as a Federal Reserve rate hike or cut. Market-implied probabilities are not forecasts or guarantees and can change quickly.

Mortgage-Backed Securities: Fixed income securities backed by pools of mortgage loans. Agency mortgage-backed securities are commonly issued or guaranteed by government-sponsored enterprises or federal agencies.

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